



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**November 30, 2007**

To the Board of Education of the  
Mount Clemens Community School District  
Mount Clemens, Michigan

We have audited the financial statements of Mount Clemens Community School District (the "District") for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated June 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on District's compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application

of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is positioned to the right of the "Very truly yours," text.

## **Comments and Recommendations**

### **For the Year Ended June 30, 2007**

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In planning and performing our audit of the financial statements of **Mount Clemens Community School District (the "District")** as of and for the year ended **June 30, 2007**, in accordance with auditing standards generally accepted in the United States of America, we considered the **District's** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **District's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **District's** internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, which are described in the Schedule of Findings and Questioned Costs in the **District's** Single Audit report.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no material weaknesses.

#### **Other Matters**

##### **Various Accounting Issues**

During our audit procedures it came to our attention that many of the routine processes that would normally occur did not happen on a timely basis. These include reversals of prior year receivables and the related deferred revenue, reconciliation of many balance sheet accounts, month end closings for May or June, cash transfers for May and June, the recognition of revenues, reimbursable meal claims, grant tie-outs and employees assigned to these grants, posting payroll entries, processing of accounts payable.

It is our understanding that many of these issues were in regards to the timing issues related to the change in administration. It is our understanding that the District's new administration has already addressed these issues and is implementing or enhancing current internal controls to address these issues.

##### **Approved Signatures**

It came to our attention that the approved signers of the District's disbursement checks has not been updated with the District's banking institutions or the Macomb County Intermediate School District in recent years. Approved signatures listings are a vital part of the District's internal controls over disbursements.

## **Comments and Recommendations**

**For the Year Ended June 30, 2007**

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We would recommend that the District review the authorized signature listing and update through board approval. We would recommend that the authorized signature list be submitted to the District's banking institutions and the Macomb County Intermediate School District.

### **New Auditing Standards for Upcoming Year**

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the *risk assessment standards*. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each significant area and financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

### **Recommendation:**

We would recommend that the District begin defining the significant areas and accounting cycles related to financial reporting, identifying "what could go wrong" scenarios and the controls that the District has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the District determines.

We believe that the District will benefit by having a working model to easily access the District's strengths and areas of improvement over internal controls, a physical resource to demonstrate the District's resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.



**MOUNT CLEMENS  
COMMUNITY SCHOOL DISTRICT**

**Mount Clemens, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2007**

**MOUNT CLEMENS  
COMMUNITY SCHOOL DISTRICT**

**Mount Clemens, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2007**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

For the Year Ended June 30, 2007

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**REHMANN ROBSON**

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## **INDEPENDENT AUDITORS' REPORT**

November 30, 2007

Board of Education  
Mount Clemens Community School District  
Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Mount Clemens Community School District (the "District")***, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Mount Clemens Community School District***, as of June 30, 2007, and the respective changes in financial position thereof and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 30, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Mount Clemens Community School District* basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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As management of Mount Clemens Community School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

### Financial Highlights

- The District continued to invest in its future by renovating and expanding its facilities and related equipment by expending \$7,460,950 in the 2001 Capital Projects Fund.
- The government's net assets totaled \$716,623 or a decrease of \$969,691 due to the current economic conditions at the State level and a decrease in enrollment.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$14,306,732 a decrease of \$7,662,090 in comparison with the prior year. Almost 100%, or \$14,125,002 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,511,234 or 6% of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2007.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 2001 capital projects funds, each of which are considered to be a major fund. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$716,626 at the close of the most recent fiscal year.

A portion of the District's net assets (22%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serve; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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### District's Net Assets

	2006-07	2005-06
Current and other assets	\$ 19,550,117	\$ 25,176,785
Non-current assets, net	71,202,510	65,271,707
Total assets	<u>90,752,627</u>	<u>90,448,492</u>
Long-term liabilities outstanding	80,677,895	82,206,075
Other liabilities	9,358,109	6,556,103
Total liabilities	<u>90,036,004</u>	<u>88,762,178</u>
Net assets:		
Invested in capital assets, net of related debt	161,185	765,466
Restricted	1,050,906	264,655
Unrestricted	<u>(495,468)</u>	<u>656,193</u>
Total net assets	<u>\$ 716,623</u>	<u>\$ 1,686,314</u>

An additional portion of the District's net assets (147%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net deficit* (-69% or \$(495,468) is required to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in two of three categories.

The District's net assets decreased by \$969,691 during the current fiscal year. This is compared to the decrease of \$700,980 in the prior year. Most of this decline over the year largely reflects the degree to which ongoing expenses exceeded ongoing revenues. This is mostly due to deteriorating economic conditions in the state and national markets along with a declining enrollment base, which caused a reduction in the District's state aid. This has been a consistent trend over that past few years.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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### District's Changes in Net Assets

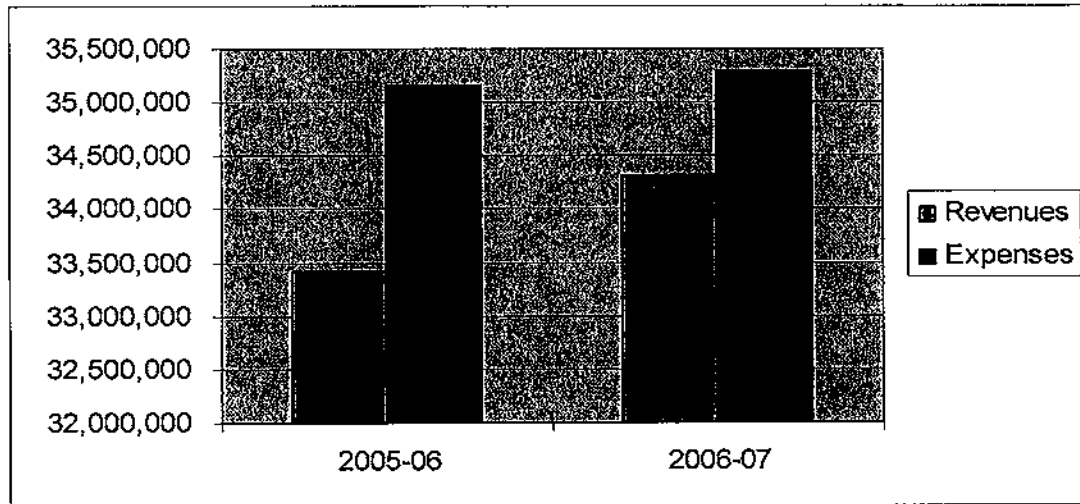
	<u>2006-2007</u>	<u>2005-2006</u>
Revenue:		
Program revenue:		
Charges for services	\$ 696,994	\$ 765,115
Operating grants and contributions	7,849,904	8,149,608
General revenue:		
Property taxes	9,724,542	9,445,903
State school aid	14,592,256	14,534,000
Other	1,457,707	1,552,804
Total revenue	<u>34,321,403</u>	<u>34,447,430</u>
Expenses:		
Instruction	18,903,879	18,590,267
Support services	10,624,359	10,562,276
Food service	1,188,945	1,306,878
Athletics	334,921	329,101
Community service	448,204	398,057
Interest on long-term debt	3,790,786	3,961,831
Total expenses	<u>35,291,094</u>	<u>35,148,410</u>
Increase (decrease) in net assets	(969,691)	(700,980)
Net assets, beginning of year (as restated)	<u>1,686,314</u>	<u>2,387,294</u>
Net assets, end of year	<u>\$ 716,623</u>	<u>\$ 1,686,314</u>



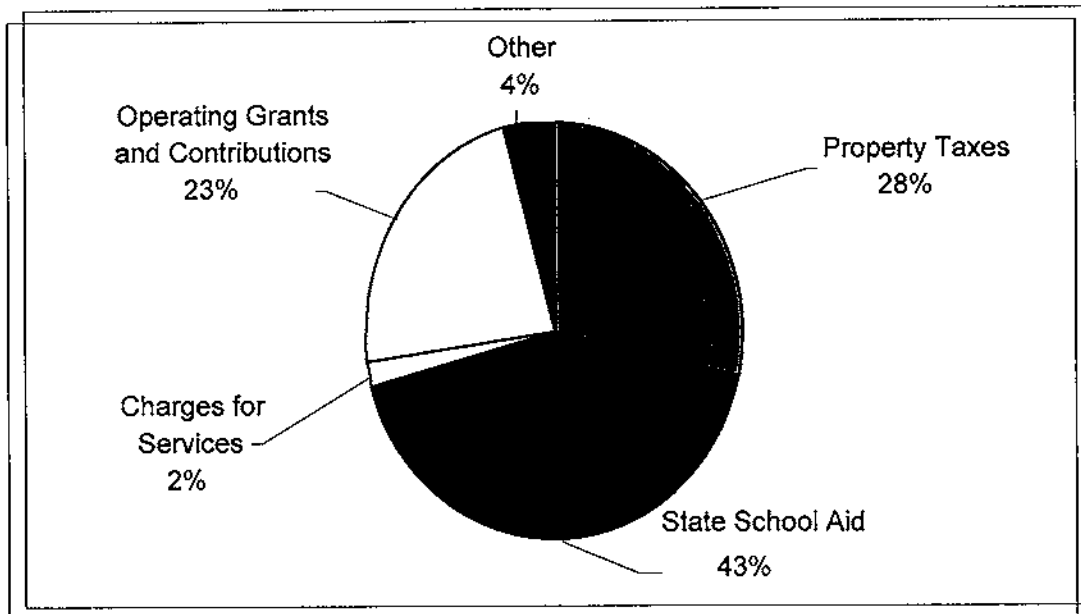
# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

**Total Expenses vs. Total Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**

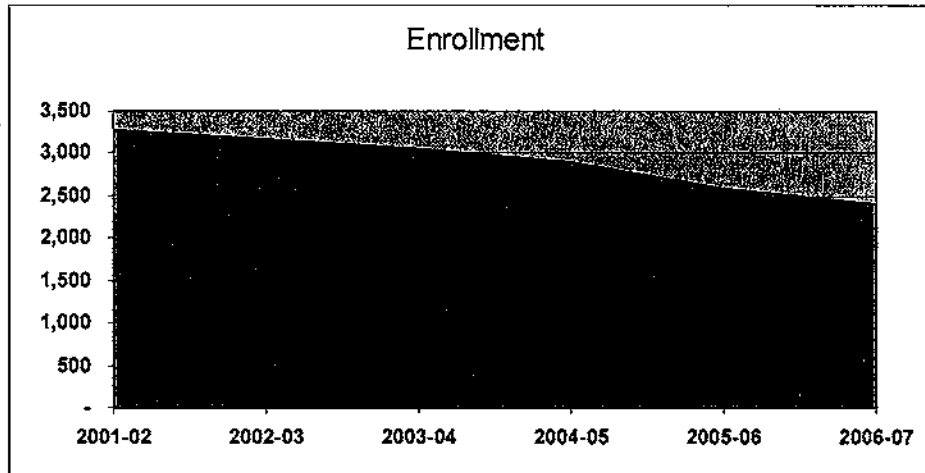


# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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### Trend in Enrollment – Last Five Fiscal Years



### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$14,306,732, a decrease of \$7,662,090 in comparison with the prior year. Approximately 100% of this total amount, \$14,125,002, constitutes *unreserved fund balance* which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in prepaids.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,511,234. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 6%, or 1 month, of total general fund expenditures.

The District's general fund fund balance decreased by \$1,568,410 during the current fiscal year. This is primarily attributable to unattainable revenue projections and reductions in enrollment.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **Management's Discussion and Analysis**

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The 2001 capital projects fund incurred \$7,460,950 of expenditures while in the process of completing the remodeling of Macomb Academy into the Mount Clemens Middle School. These expenditures helped to bring the total fund balance down to \$11,395,604 which represents the un-liquidated portion of the original bond proceeds.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgeted revenues and expenditures amounted to a decrease of \$444,510 in revenues and a decrease in expenditures of \$129,693. This was primarily due to adjustments in staffing due to enrollment declines. Once additional information was known, subsequent budget amendments recognized these adjustments.

Actual to final budget variances of \$(2,375,257) for revenues and \$2,176,101 for expenditures were primarily due to unattainable revenue projections.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$70,537,266 (net of accumulated depreciation), which is an increase over the prior year's investment of \$64,682,760. This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 9%, due mainly to the construction work being completed in the District from the 2001 Capital Project Fund.

The major capital asset event during the current fiscal year was the following:

- Approximately \$7,460,950 in construction and building improvement projects, including the remodeling of Macomb Academy to a Middle School (grades 6 to 8), construction work at the current Middle School and High School facilities.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

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### District's Capital Assets (Net of depreciation)

	2006-07	2005-06
Land	\$ 680,575	680,575
Construction in progress	76,385	50,952,741
Land improvements	4,620,634	675,338
Building and improvements	64,008,023	11,046,494
Furniture and equipment	1,146,399	1,318,762
Vehicles	5,250	8,850
Total	<u>\$ 70,537,266</u>	<u>\$ 64,682,760</u>

Additional information on the District's capital assets can be found in the Notes to the Financial Statements section of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$72,818,252. In addition, there is \$9,713,283 of debt that is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total bonded debt decreased by \$364,792 or 1%, during the current fiscal year, due primarily to additional principle and interest borrowings from the State-sponsored School Bond Loan Program and the issuance of 2007 refunding bonds.

Additional information on the District's long-term debt can be found in the Notes to the Financial Statements section of this report.

### Economic factors and Next Year's Budgets and Rates

The following will affect the District in the future and were considered in preparing the District's budget for the 2007-08 fiscal year:

- The economic downswing in Michigan continues to cause stress on the District's budget. The District's largest revenue source, the State of Michigan, has not kept pace with mandated and inflationary increases in expenditures for the coming year. The other factor affecting revenue will come from the District's enrollment, which will be affected by competition from schools of choice and charter schools.
- Health insurance related benefits (i.e. medical, dental and vision) have seen significant increases over the past few years. With no full time staff contributing to the costs of these benefits, such increases severely threaten the District's financial position.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **Management's Discussion and Analysis**

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- The School District is mandated by Michigan State statute to contribute to the Michigan Public School Employees Retirement System (MPERS) at a rate established by the State of Michigan. The rate set for 2007-08 was reduced to 16.72% of our annual covered payroll (2006-07 it was 17.74%). It is management's belief that future contribution rates will continue to increase 1-4% annually, despite the roll back for 2007-08.
- The 2007-08 fiscal year will see the re-opening of the renovated Macomb Academy into the new Middle School (grades 6 to 8).

The above listed items encompass the major challenges for the 2007-08 fiscal year that will undoubtedly feature rising expenses with sluggish revenues. Such a combination will mean the District will be evaluating all areas in order to end with a positive fund balance.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services, 167 Cass Avenue, Mount Clemens, Michigan 48043.

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
<hr/>	
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 15,032,901
Receivables	4,272,661
Prepays and other	244,555
	<hr/>
<b>Total current assets</b>	<b>19,550,117</b>
	<hr/>
<b>Non-current assets</b>	
Capital assets not being depreciated	756,960
Capital assets being depreciated	87,995,325
Accumulated depreciation	(18,215,019)
Net capital assets	70,537,266
Unamortized bond issuance costs	665,244
	<hr/>
<b>Total noncurrent assets</b>	<b>71,202,510</b>
	<hr/>
<b>Total assets</b>	<b>90,752,627</b>
	<hr/>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	2,506,876
Accrued payroll and other liabilities	2,316,415
Unearned revenue	420,094
Current portion of long-term obligations	4,114,724
	<hr/>
<b>Total current liabilities</b>	<b>9,358,109</b>
<b>Noncurrent liabilities</b>	
Noncurrent portion of long-term obligations	80,677,895
	<hr/>
<b>Total liabilities</b>	<b>90,036,004</b>
	<hr/>
<b>Net assets</b>	
Invested in capital assets, net of related debt	156,686
Restricted for	
Debt service	1,055,403
Unrestricted deficit	(495,466)
	<hr/>
<b>Total net assets</b>	<b>\$ 716,623</b>
	<hr/>

The accompanying notes are an integral part of these financial statements.



# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 18,908,375	\$ 106,805	\$ 6,834,841	\$ (11,966,729)
Support services	10,624,360	69,673	75,848	(10,478,839)
Community services	448,204	173,374	-	(274,830)
Food services	1,188,945	328,068	939,215	78,338
Athletics	334,921	19,074	-	(315,847)
Interest on long-term debt	3,786,289	-	-	(3,786,289)
<b>Total governmental activities</b>	<b>\$ 35,291,094</b>	<b>\$ 696,994</b>	<b>\$ 7,849,904</b>	<b>(26,744,196)</b>
General revenues:				
Property taxes, levied for general purposes				4,621,241
Property taxes, levied for debt service				5,103,301
Unrestricted state school aid				14,592,256
Other revenues				455,803
Unrestricted investment earnings				1,001,904
<b>Total general revenues</b>				<b>25,774,505</b>
Change in net assets				(969,691)
Net assets, beginning of year, as restated				1,686,314
<b>Net assets, end of year</b>				<b>\$ 716,623</b>

The accompanying notes are an integral part of these financial statements.

## **FUND FINANCIAL STATEMENTS**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2007

	General Fund	2001 Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 428,673	\$ 13,441,614	\$ 1,162,614	\$ 15,032,901
Taxes receivable	-	-	37,487	37,487
Accounts receivable	313,955	-	-	313,955
Due from other governmental units	3,921,219	-	-	3,921,219
Inventories	-	-	9,911	9,911
Prepays	171,819	-	62,825	234,644
<b>Total assets</b>	<b>\$ 4,835,666</b>	<b>\$ 13,441,614</b>	<b>\$ 1,272,837</b>	<b>\$ 19,550,117</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 433,203	\$ 2,050,507	\$ 23,166	\$ 2,506,876
Salaries payable	1,830,166	-	17,099	1,847,265
Accrued expenses	469,150	-	-	469,150
Deferred revenue	420,094	-	-	420,094
<b>Total liabilities</b>	<b>3,152,613</b>	<b>2,050,507</b>	<b>40,265</b>	<b>5,243,385</b>
<b>Fund Balances</b>				
Reserved for inventories and prepaids	171,819	-	9,911	181,730
Unreserved, designated for capital projects	-	11,391,107	-	11,391,107
Unreserved, undesignated	1,511,234	-	-	1,511,234
Unreserved, undesignated, reported in nonmajor:				
Debt service funds	-	-	1,055,403	1,055,403
Special revenue funds	-	-	167,258	167,258
<b>Total fund balances</b>	<b>1,683,053</b>	<b>11,391,107</b>	<b>1,232,572</b>	<b>14,306,732</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,835,666</b>	<b>\$ 13,441,614</b>	<b>\$ 1,272,837</b>	<b>\$ 19,550,117</b>

The accompanying notes are an integral part of these financial statements.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets**

**June 30, 2007**

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<b>Fund balances - total governmental funds</b>	<b>\$</b>	<b>14,306,732</b>
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resource and therefore are not reported in the funds.		
Add: capital assets		88,752,285
Deduct: accumulated depreciation		(18,215,019)
 Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred on the statement of net assets and amortized.		
Deduct: bonds payable		(81,771,687)
Add: unamortized bond issuance costs		665,244
Deduct: accrued interest on bonds payable		(2,901,249)
Deduct: accrued insurance claims and judgements		(93,508)
Deduct: compensated absences		(26,175)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>716,623</u></b>

The accompanying notes are an integral part of these financial statements.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds

For the Year Ended June 30, 2007

	General Fund	2001 Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources:	\$ 6,547,313	\$ 796,014	\$ 5,461,846	\$ 12,805,173
State sources:	18,317,645	-	116,309	18,433,954
Federal sources:	2,259,370	-	822,906	3,082,276
<b>Total revenues</b>	<b>27,124,328</b>	<b>796,014</b>	<b>6,401,061</b>	<b>34,321,403</b>
<b>Expenditures</b>				
Instruction	17,294,181	-	-	17,294,181
Support service	10,624,362	-	-	10,624,362
Food service	-	-	1,188,945	1,188,945
Athletics	-	-	334,921	334,921
Community service	448,204	-	-	448,204
Debt service				
Principal	-	-	2,354,792	2,354,792
Interest	-	-	5,080,744	5,080,744
Capital outlay and repair	-	7,465,447	-	7,465,447
<b>Total expenditures</b>	<b>28,366,747</b>	<b>7,465,447</b>	<b>8,959,402</b>	<b>37,326,149</b>
Revenues over (under) expenditure:	(1,242,419)	(6,669,433)	(2,558,341)	(3,004,746)
<b>Other financing sources (uses)</b>				
Note/bond proceeds	-	-	38,857,930	38,857,930
Payments to refunding agen	-	-	(36,049,827)	(36,049,827)
Transfers in	-	-	325,991	325,991
Transfers out	(325,991)	-	-	(325,991)
<b>Total other financing sources (uses)</b>	<b>(325,991)</b>	<b>-</b>	<b>3,134,094</b>	<b>2,808,103</b>
Net change in fund balance	(1,568,410)	(6,669,433)	575,753	(7,662,090)
Fund balance, beginning of year, as restat	3,251,463	18,060,540	656,819	21,968,822
<b>Fund balance, end of year</b>	<b>\$ 1,683,053</b>	<b>\$ 11,391,107</b>	<b>\$ 1,232,572</b>	<b>\$ 14,306,732</b>

The accompanying notes are an integral part of these financial statements.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

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Net change in fund balances - total governmental funds	\$ (7,662,090)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	7,633,619
Deduct - depreciation expense	(1,779,113)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized on the statement of activities.

Add: principal payments on long-term liabilities	2,354,792
Add: use of proceeds on bond issuance to refund debt	36,049,827
Deduct: proceeds received on bond issuance	(38,857,930)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued compensated absence	(2,745)
Add: amortization on bond costs and premium	17,832
Add: decrease in accrued interest payable on bonds	1,276,626
Deduct: increase in insurance liability	(509)

Change in net assets of governmental activities	<u>\$ (969,691)</u>
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The accompanying notes are an integral part of these financial statements.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local sources				
Property taxes	\$ 4,374,684	\$ 4,769,993	\$ 4,621,241	\$ (148,752)
Special education tax - MISC	1,400,000	1,400,000	1,089,345	(310,655)
Earnings on investments	150,000	200,000	200,495	495
Other local sources	672,203	585,426	636,232	50,806
State sources				
Foundation allowance	14,728,660	13,509,200	14,592,256	1,083,056
Other state sources	5,078,016	5,057,562	3,725,389	(1,332,173)
Federal sources	3,540,532	3,977,404	2,259,370	(1,718,034)
<b>Total revenues</b>	<b>29,944,095</b>	<b>29,499,585</b>	<b>27,124,328</b>	<b>(2,375,257)</b>
<b>Expenditures</b>				
Instruction				
Basic programs	11,876,743	12,061,772	12,053,341	8,431
Added needs	5,497,204	5,929,270	5,240,840	688,430
<b>Total instruction</b>	<b>17,373,947</b>	<b>17,991,042</b>	<b>17,294,181</b>	<b>696,861</b>
Support services				
Pupil	2,353,612	2,451,666	2,399,361	52,305
Instructional support	1,201,214	1,167,989	1,110,806	57,183
General administrator	744,240	696,855	674,889	21,966
School administrator	1,818,145	1,624,417	1,675,565	(51,148)
Business	568,674	473,674	390,942	82,732
Maintenance	3,266,627	2,844,001	2,857,292	(13,291)
Transportation	1,005,457	963,436	885,934	77,502
Central services	684,964	636,068	629,573	6,495
Indirect offset	73,543	81,521	-	81,521
<b>Total support services</b>	<b>11,716,476</b>	<b>10,939,627</b>	<b>10,624,362</b>	<b>315,265</b>
Community service	1,582,028	1,612,089	448,204	1,163,885
<b>Total expenditures</b>	<b>30,672,451</b>	<b>30,542,758</b>	<b>28,366,747</b>	<b>2,176,011</b>
<b>Revenues over (under) expenditure</b>	<b>(728,356)</b>	<b>(1,043,173)</b>	<b>(1,242,419)</b>	<b>(199,246)</b>
<b>Other financing (uses)</b>				
Transfers out	(313,000)	(310,290)	(325,991)	(15,701)
<b>Net change in fund balance:</b>	<b>(1,041,356)</b>	<b>(1,353,463)</b>	<b>(1,568,410)</b>	<b>(214,947)</b>
Fund balance, beginning of year, as restated	3,251,463	3,251,463	3,251,463	-
<b>Fund balance, end of year</b>	<b>\$ 2,210,107</b>	<b>\$ 1,898,000</b>	<b>\$ 1,683,053</b>	<b>\$ (214,947)</b>

The accompanying notes are an integral part of these financial statements.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

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	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 234,611	\$ 69,766
Investments	139,642	-
Accounts receivable	<u>500</u>	<u>-</u>
<b>Total assets</b>	<u><b>374,753</b></u>	<u><b>\$ 69,766</b></u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u><b>\$ 69,766</b></u>
<b>Net Assets - reserved for scholarships</b>	<u><b>\$ 374,753</b></u>	

The accompanying notes are an integral part of these financial statements.



# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **Statement of Changes in Net Fiduciary Assets**

**For the Year Ended June 30, 2007**

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	<u>Private Purpose Trust</u>
<b>Additions</b>	
Private contributions	\$ 57,615
Earnings on investments	<u>7,741</u>
<b>Total additions</b>	<b>65,356</b>
<b>Deductions</b>	
Scholarships awarded	<u>22,020</u>
Net change in net assets	43,336
Net assets - beginning of year	<u>331,417</u>
<b>Net assets - end of year</b>	<b><u>\$ 374,753</u></b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The Mount Clemens Community School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary trust fund financial statements. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for expenditure driven grants, which are considered available if collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2001 capital projects fund accounts for the construction, as well as the acquisition, of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food services and athletic funds. Any operating deficit generated by these activities is the responsibility of the general fund.

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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The fiduciary funds consist of assets held by the District in a trustee capacity or as an agent on behalf of others. The District has two fiduciary funds, which include the private-purpose trust and the student activities agency fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

### **D. Assets, Liabilities and Equity**

#### **1. Deposits and investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### ***Statutory authority***

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the Surplus Funds Investment Pool Act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy is equivalent to the above State of Michigan policy.

### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

### **3. Inventories and prepaid items**

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### 4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-25
Buildings	50
Furniture and equipment	5-20
Licensed vehicles	8

### 5. Compensated absences

The liability for compensated absences reported in the district-wide statements consists of earned but unused accrued vacation. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, with amounts for both employees who are currently eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **6. Long-term obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### **7. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

### **B. Excess of Expenditures over Appropriations**

The District did not have any expenditure budget overruns during the fiscal year at the legal budget control level.



# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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### D. Bonded Construction Costs

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

	<u>Deposits</u>	<u>Investment</u>	<u>Other</u>	<u>Total</u>
<b>Statement of net assets:</b>				
Cash & cash equivalents	\$6,961,908	\$ 8,070,393	\$ 600	\$15,032,901
<b>Fiduciary funds</b>				
Cash & cash equivalents	304,377	-	-	304,377
Investments	-	139,642	-	139,642
	<u>\$7,266,285</u>	<u>\$ 8,210,035</u>	<u>\$ 600</u>	<u>\$15,476,920</u>

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	N/A	\$ 8,070,393	AAA
American Funds Investment Co. of America	N/A	89,449	Unrated
Various stocks	N/A	50,193	N/A
		<u>\$ 8,210,035</u>	

### *Investment and Deposit Risk*

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end, as applicable.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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*Credit Risk.* State law limits investments to specific investment types as identified in the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end, as applicable.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$8,467,425 of the District's bank balance of \$8,784,425 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the District does not have, a policy for investment custodial credit risk. The District's investments of \$8,210,035 had a custodial credit risk exposure of \$8,210,035 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant accounting policies. The District investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in the Michigan Liquid Assets Fund, Fifth Third Bank and Community Central Bank. All investments held at year-end are reported above.

### **B. Receivables**

Receivables in the governmental activities are 91 percent due from other governments and 9 percent from other receivables.

### **C. Interfund Receivables, Payables and Transfers**

There were no interfund balances as of June 30, 2007.

As of June 30, 2007, the only transfer was from the General fund to the Athletics fund in the amount of \$325,991 to help subsidize the athletics program.

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### D. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Assets not being depreciated					
Land	\$ 680,575	\$ -	\$ -	\$ -	\$ 680,575
Construction in progress	50,952,741	76,385	-	(50,952,741)	76,385
Subtotal of capital assets not being depreciated	51,633,316	76,385	-	(50,952,741)	756,960
Capital assets being depreciated:					
Land improvements	838,227	49,285	-	-	887,512
Buildings and improvements	20,890,539	7,430,393	-	50,952,741	79,273,673
Furniture and equipment	7,704,084	90,148	(12,592)	-	7,781,640
Vehicles	52,500	-	-	-	52,500
Subtotal capital assets being depreciated	29,485,350	7,569,826	(12,592)	50,952,741	87,995,325
Less accumulated depreciation for:					
Land improvements	162,889	144,147	-	-	307,036
Buildings and improvements	9,844,045	1,381,447	-	-	11,225,492
Furniture and equipment	6,385,322	249,919	-	-	6,635,241
Vehicles	43,650	3,600	-	-	47,250
Subtotal accumulated depreciation	16,435,906	1,779,113	-	-	18,215,019
Net capital assets being depreciated	13,049,444	5,790,713	(12,592)	50,952,741	69,780,306
Net capital assets	\$ 64,682,760	\$ 5,867,098	\$ (12,592)	\$ -	\$ 70,537,266

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

<u>Functions</u>	<u>Amount</u>
Instruction	<u>\$ 1,779,112</u>

### E. Operating Leases

The District leases equipment under noncancelable operating leases. Total costs for such leases were approximately \$99,871 for the current year. The future minimum lease payments for these leases are as follows:

<u>Year Ending</u> <u>June 30:</u>	
2008	\$ 69,992
2009	69,992
2010	<u>34,996</u>
Total	<u>\$174,980</u>

### F. Long-Term Debt

The following is a summary of the bond, compensated absence, and other long-term obligation related transactions of the District for the year ended June 30, 2007:

	<u>Balance at</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Advanced</u> <u>Refunding</u>	<u>Balance at</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	73,183,044	37,065,000	(2,354,792)	(35,075,000)	72,818,252	3,175,000
Unamortized premium	2,536,944	-	(822,945)	(808,330)	905,669	170,640
Deferred loss on refunding	(1,365,261)	113,789	(414,047)	-	(1,665,519)	(113,789)
State of MI school bond	7,623,105	2,090,178	-	-	9,713,283	-
Accreted interest on capital appreciated bonds	2,572,785	-	(460,899)	-	2,111,886	-
Accrued interest	887,167	789,364	(887,167)	-	789,364	789,364
Self insurance liability	93,000	374,544	(374,035)	-	93,509	93,509
Compensated absences	23,430	26,175	(23,430)	-	26,175	-
Total	<u>85,554,214</u>	<u>40,459,050</u>	<u>(5,337,315)</u>	<u>(35,883,330)</u>	<u>84,792,619</u>	<u>4,114,724</u>

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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The self insurance liability and compensated absences are generally liquidated by the general fund.

Bonds payable at June 30, 2007, are comprised of the following issues:

General Obligation Bonds:

1993 Refunding Bonds - \$1,733,253 capital appreciation bonds, installments of \$296,958 to \$400,276 due May 1, 2013 through May 1, 2017, interest at 5.8% to 5.85%	\$ 1,733,252
2001 School Building and Site Bonds - \$35,085,000 serial bonds due in annual installments of \$1,700,000 to \$2,700,000 through May 1, 2011, interest at 3.75% to 5.50%. \$35,075,000 term bonds due in annual installments of \$2,675,000 to \$2,700,000 from May 1, 2019 through May 1, 2031, interest at 5.00%	8,150,000
2004 Refunding Bonds - \$5,045,000 serial bonds due in annual installments of \$950,000 to \$1,090,000 from May 1, 2008 through May 1, 2012, interest at 2.50% to 4.00%. \$3,000,000 serial bonds due in annual installments of \$1,000,000 from May 1, 2018 through May 1, 2020, interest at 3.90% to 4.00%.	8,045,000
2006 Unlimited Tax General Obligation Refunding Bonds - \$17,915,000 serial bonds due in annual installments of \$45,000 to \$2,660,000 from May 1, 2007 through May 1, 2018, interest at 3.00% to 5.00%.	17,825,000
2007 Unlimited Tax General Obligation Refunding Bonds - \$37,065,000 serial bonds due in annual installments of \$105,000 to \$2,835,000 from May 1, 2008 through May 1, 2031, interest at 4.00 to 5.00%.	<u>37,065,000</u>
	<u>\$ 72,818,252</u>

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year</b>	<b>Due</b>	<b>Due</b>	<b>Total</b>
2008	3,175,000	2,912,807	6,087,807
2009	3,135,000	2,952,668	6,087,668
2010	3,250,000	2,839,618	6,089,618
2011	3,370,000	2,719,862	6,089,862
2012	3,505,000	2,585,237	6,090,237
2013-2017	15,008,252	15,111,685	30,119,937
2018-2022	17,075,000	7,233,637	24,308,637
2023-2027	13,675,000	4,090,581	17,765,581
2028-2031	10,625,000	1,158,062	11,783,062
	<b>72,818,252</b>	<b>41,604,157</b>	<b>114,422,409</b>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Borrowings by the School District from the School Bond Loan Fund increased \$2,090,178, including \$297,248 of interest added to the corpus of the debt, totaling \$9,713,283 and accrued interest, not yet added to the corpus of the debt totaled \$303,896 for the year ended June 30, 2007.

### *Advance and Current Refundings*

On May 16, 2007, the District issued \$37,065,000 of general obligation refunding bonds with an average interest rate of 4.26 percent to advance refund \$35,075,000 of the 2001 School Building and Site bonds with an average interest rate of 5.0 percent producing an economic gain of \$1,380,272. The net proceeds of \$36,049,827 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2001 School Building and Site bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

Although the advance refunding resulted in an accounting loss of \$414,048, for the year ended June 30, 2007, the District in effect reduced its aggregate debt service payments

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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by approximately \$2,212,380 over the next 24 years and obtained an economic gain (difference between present values of old and new debt service payments) of approximately \$1,380,272.

The amount of defeased debt outstanding at June 30, 2007 was \$57,712,371.

### **G. Commitments and Contingencies**

*Food Service Contracts* – The District has a contract for management of its food service operations, renewable annually. The total contract cost for the year ended June 30, 2007 was approximately \$506,000. The contract includes a minimum administrative fee of approximately \$20,000 and a management fee of approximately \$15,000 per year.

*Pupil Transportation* – The District has contracted for pupil transportation services through the year ending June 30, 2008. The base contract price is approximately \$825,000 per year and provides for annual increases of approximately 3.0%. The total contract cost for pupil transportation services for the year ended June 30, 2007 was approximately \$907,000.

*Federal and State Grants* - Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

*Construction Contract Commitments* - The District is obligated for construction contracts relating to building projects in the amount of \$1.2 million at June 30, 2007. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

## **IV. OTHER INFORMATION**

### **A. Risk Management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for torts, errors, and omissions claims; the District is self insured for non-teacher healthcare, dental, and vision claims. The District participates in the Middle Cities Risk

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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Management Trust (risk pool) for claims relating to property and casualty, the Middle Cities Workers Compensation Fund for workers' compensation, and M.E.S.S.A. for teacher's health care. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The District estimates the liability for non-teacher health, dental, and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not been reported. These estimates are recorded in the district-wide statements.

Changes in the balances of claims liabilities during the past three years are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Accrued claims, beginning of year	\$ 93,000	\$ 86,000	\$ 75,000
Incurred claims	374,544	371,706	353,547
Claim payments	<u>(374,035)</u>	<u>(364,706)</u>	<u>(342,547)</u>
Accrued claims, end of year	<u>\$ 93,509</u>	<u>\$ 93,000</u>	<u>\$ 86,000</u>

### B. Property Taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Mount Clemens and Clinton Township on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Macomb County advance delinquent real taxes to the District.

### C. Defined Benefit Pension Plan

#### Plan Description

The Mount Clemens Community School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.



# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

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The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Mount Clemens Community School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Mount Clemens Community School District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$2,820,652, \$2,341,000, and \$2,468,000, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance included as part of the District's total monthly contribution to the pension plan discussed above.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

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employer paid health benefit coverage (no payment if less than 21 years of service).

### D. Restatement of Fund Balance and Government-wide Net Assets

The restatement of the beginning balance of the Districts fund balance and government-wide net assets was due to the recognition of tax revenues previously estimated to be uncollectible:

	<b>Fund Balance/ Net Assets Previously Stated</b>	<b>Reversal of Tax Refund Liability</b>	<b>Reversal of State Refund Liability</b>	<b>Fund Balance/ Net Assets Restated</b>
General fund	\$ 2,522,531	\$ 441,692	\$ 287,240	\$ 3,251,463
1992 debt service fund	-	67,398	-	67,398
2001 debt service fund	257,900	158,733	-	416,633
2004 debt service fund	-	18,525	-	18,525
2005 debt service fund	-	58,828	-	58,828
Total government funds	<u>\$ 2,780,431</u>	<u>\$ 745,176</u>	<u>\$ 287,240</u>	<u>\$ 3,812,847</u>
District-wide net assets	<u>\$ 653,898</u>	<u>\$ 745,176</u>	<u>\$ 287,240</u>	<u>\$ 1,686,314</u>

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## **SUPPLEMENTARY INFORMATION**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2007

	Special Revenue		Debt Service	
	Food Services	Athletics	1992 Issue	1993 Refunding
<b>ASSETS</b>				
<b>Assets</b>				
Cash and investments	\$ -	\$ 107,211	\$ 151,734	\$ 5,755
Accounts receivable	37,487	-	-	-
Inventories	9,911	-	-	-
Prepays	62,700	125	-	-
<b>Total assets</b>	<b>\$ 110,098</b>	<b>\$ 107,336</b>	<b>\$ 151,734</b>	<b>\$ 5,755</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 17,768	\$ 5,398	\$ -	\$ -
Salaries payable	-	17,099	-	-
<b>Total liabilities</b>	<b>17,768</b>	<b>22,497</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>				
Reserved for inventories	9,911	-	-	-
Unreserved and undesignated	82,419	84,839	151,734	5,755
<b>Total fund balances</b>	<b>92,330</b>	<b>84,839</b>	<b>151,734</b>	<b>5,755</b>
<b>Total liabilities and fund balances</b>	<b>\$ 110,098</b>	<b>\$ 107,336</b>	<b>\$ 151,734</b>	<b>\$ 5,755</b>

Debt Service				Total Nonmajor Governmental Funds
2001 Issue	2004 Refunding	2005 Refunding	2007 Refunding	
\$ 761,292	\$ 60,496	\$ 76,126	\$ -	\$ 1,162,614
-	-	-	-	37,487
-	-	-	-	9,911
-	-	-	-	62,825
<u>\$ 761,292</u>	<u>\$ 60,496</u>	<u>\$ 76,126</u>	<u>\$ -</u>	<u>\$ 1,272,837</u>
\$ -	\$ -	\$ -	\$ -	\$ 23,166
-	-	-	-	17,099
-	-	-	-	40,265
-	-	-	-	9,911
<u>761,292</u>	<u>60,496</u>	<u>76,126</u>	<u>-</u>	<u>1,222,661</u>
<u>761,292</u>	<u>60,496</u>	<u>76,126</u>	<u>-</u>	<u>1,232,572</u>
<u>\$ 761,292</u>	<u>\$ 60,496</u>	<u>\$ 76,126</u>	<u>\$ -</u>	<u>\$ 1,272,837</u>

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Combining Statement of Revenues, Expenditures and Changes in Fund Balance Nonmajor Governmental Funds

For the Year Ended June 30, 2007

	Special Revenue		Debt Service	
	Food Services	Athletics	1992 Issue	1993 Refunding
<b>Revenues</b>				
Local sources				
Property taxes	\$ -	\$ -	\$ 1,283,521	\$ -
Food sales	328,068	-	-	-
Investment earnings	7	-	1,265	-
Other local sources	-	19,074	-	-
State sources	116,309	-	-	-
Federal sources	822,906	-	-	-
<b>Total revenues</b>	<b>1,267,290</b>	<b>19,074</b>	<b>1,284,786</b>	<b>-</b>
<b>Expenditures</b>				
Food services	1,188,945	-	-	-
Athletics	-	334,921	-	-
Debt service				
Principal	-	-	459,792	-
Interest and other	-	-	740,658	1,000
Capital outlay and repairs				
<b>Total expenditures</b>	<b>1,188,945</b>	<b>334,921</b>	<b>1,200,450</b>	<b>1,000</b>
Revenue over (under) expenditure	78,345	(315,847)	84,336	(1,000)
<b>Other financing sources</b>				
Bond proceeds	-	-	-	-
Payments to refunding agent	-	-	-	-
Transfers in	-	325,991	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>325,991</b>	<b>-</b>	<b>-</b>
Net change in fund balances:	78,345	10,144	84,336	(1,000)
Fund balance, beginning of year, as restated	13,985	74,695	67,398	6,755
<b>Fund balance, end of year</b>	<b>\$ 92,330</b>	<b>\$ 84,839</b>	<b>\$ 151,734</b>	<b>\$ 5,755</b>

Debt Service				Total Nonmajor Governmental Funds
2001 Issue	2004 Refunding	2005 Refunding	2007 Refunding	
\$ 2,548,269	\$ 326,316	\$ 945,195	\$ -	\$ 5,103,301
-	-	-	-	328,068
2,835	305	983	-	5,395
-	-	6,008	-	25,082
-	-	-	-	116,309
-	-	-	-	822,906
<u>2,551,104</u>	<u>326,621</u>	<u>952,186</u>	<u>-</u>	<u>6,401,061</u>
-	-	-	-	1,188,945
-	-	-	-	334,921
1,850,000	-	45,000	-	2,354,792
<u>2,149,375</u>	<u>284,650</u>	<u>889,888</u>	<u>1,015,173</u>	<u>5,080,744</u>
<u>3,999,375</u>	<u>284,650</u>	<u>934,888</u>	<u>1,015,173</u>	<u>8,959,402</u>
<u>(1,448,271)</u>	<u>41,971</u>	<u>17,298</u>	<u>(1,015,173)</u>	<u>(2,558,341)</u>
1,792,930	-	-	37,065,000	38,857,930
-	-	-	(36,049,827)	(36,049,827)
-	-	-	-	325,991
<u>1,792,930</u>	<u>-</u>	<u>-</u>	<u>1,015,173</u>	<u>3,134,094</u>
344,659	41,971	17,298	-	575,753
416,633	18,525	58,828	-	656,819
<u>\$ 761,292</u>	<u>\$ 60,496</u>	<u>\$ 76,126</u>	<u>\$ -</u>	<u>\$ 1,232,572</u>

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

## Schedule of Bonded Indebtedness

**June 30, 2007**

Principal Due						
June 30	1993 Refunding	2001 Issue	2004 Refunding	2005 Refunding	2007 Refunding	Total
2008	\$ -	\$ 1,925,000	\$ 950,000	\$ 55,000	\$ 245,000	\$ 3,175,000
2009	-	2,000,000	970,000	60,000	105,000	3,135,000
2010	-	2,075,000	1,000,000	65,000	110,000	3,250,000
2011	-	2,150,000	1,035,000	70,000	115,000	3,370,000
2012	-	-	1,090,000	2,295,000	120,000	3,505,000
2013	400,276	-	-	2,310,000	120,000	2,830,276
2014	376,503	-	-	2,430,000	125,000	2,931,503
2015	348,981	-	-	2,560,000	130,000	3,038,981
2016	310,535	-	-	2,660,000	135,000	3,105,535
2017	296,958	-	-	2,660,000	145,000	3,101,958
2018	-	-	1,000,000	2,660,000	150,000	3,810,000
2019	-	-	1,000,000	-	2,830,000	3,830,000
2020	-	-	1,000,000	-	2,835,000	3,835,000
2021	-	-	-	-	2,810,000	2,810,000
2022	-	-	-	-	2,790,000	2,790,000
2023	-	-	-	-	2,770,000	2,770,000
2024	-	-	-	-	2,755,000	2,755,000
2025	-	-	-	-	2,735,000	2,735,000
2026	-	-	-	-	2,715,000	2,715,000
2027	-	-	-	-	2,700,000	2,700,000
2028	-	-	-	-	2,685,000	2,685,000
2029	-	-	-	-	2,665,000	2,665,000
2030	-	-	-	-	2,645,000	2,645,000
2031	-	-	-	-	2,630,000	2,630,000
	<u>\$ 1,733,253</u>	<u>\$ 8,150,000</u>	<u>\$ 8,045,000</u>	<u>\$ 17,825,000</u>	<u>\$ 37,065,000</u>	<u>\$ 72,818,253</u>
Principal due	May 1	May 1	May 1	May 1	May 1	
Interest due	May 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rate	5.80% to 5.85%	3.75% to 5.50%	2.50% to 4.00%	3.0% to 5.00%	4.0% to 4.375%	
Original issue	<u>\$ 5,108,253</u>	<u>\$ 70,160,000</u>	<u>\$ 8,045,000</u>	<u>\$ 17,915,000</u>	<u>\$ 37,065,000</u>	



**MOUNT CLEMENS  
COMMUNITY SCHOOL DISTRICT  
Mt. Clemens, Michigan**

**Report on Expenditures of Federal Awards**

**June 30, 2007**

**MOUNT CLEMENS  
COMMUNITY SCHOOL DISTRICT  
Mt. Clemens, Michigan**

**Report on Expenditures of Federal Awards**

**June 30, 2007**

# MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

November 30, 2007

Board of Education  
Mount Clemens Community School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Mount Clemens Community School District* (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 through 2007-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The instance of noncompliance is described in the accompanying schedule of findings and questioned costs as item 2007-6.

We noted certain matters that we reported to the management of the District, in a separate letter dated November 30, 2007.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

November 30, 2007

Board of Education  
Mount Clemens Community School District

**Compliance**

We have audited the compliance of *Mount Clemens Community School District* (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-6.

## **Internal Control Over Compliance**

The management of The District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-6 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The District's response and, accordingly, we express no opinion on it.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use management, the governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.



**MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Restated or Approved Award/ Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Cash Received / Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
<b>U.S. DEPARTMENT OF AGRICULTURE</b>									
Commodities:									
Food Distribution:									
Entitlement commodities	10.550	33904	\$ 59,829	\$ -	\$ -	\$ -	\$ 51,803	\$ 51,803	-
Bonus commodities	10.550	33904	-	-	-	-	1,680	1,680	-
			59,829	-	-	-	53,483	53,483	-
Passed-through Michigan Department of Education:									
School Breakfast	10.553	61970	204,943	-	9,775	-	34,106	24,331	-
School Breakfast	10.553	71970	192,694	-	-	-	192,694	192,694	-
			397,637	-	9,775	-	226,800	217,025	-
National School Lunch:									
Section 4	10.555	61950	10,474	-	2,782	-	10,474	7,692	-
Section 4	10.555	71950	58,943	-	-	-	58,943	58,943	-
Section 11	10.555	61960	546,318	-	19,845	-	73,976	54,131	-
Section 11	10.555	71960	426,129	-	-	-	426,129	426,129	-
			1,041,863	-	22,627	-	569,522	546,895	-
Summer Food Serv Prog for Children:									
Summer Food Meals	10.559	60900	5,761	-	-	-	5,761	5,761	-
Summer Food Sponsor Adm	10.559	61900	599	-	-	-	599	599	-
			6,360	-	-	-	6,360	6,360	-
			1,505,689	-	32,402	-	856,164	823,762	-
Total U.S. Department of Agriculture									
<b>U.S. DEPARTMENT OF EDUCATION</b>									
Passed-through Michigan Department of Education:									
Title I, Part A:									
84.010	051530-0506	051530-0506	77,548	77,549	25,368	(10,379)	14,989	-	-
84.010	061530-0506	061530-0506	786,545	786,546	261,395	(86,112)	175,283	-	-
84.010	061530-0506	061530-0506	104,795	-	-	-	58,000	104,795	46,795
84.010	071530-0607	071530-0607	936,929	-	-	-	508,000	848,327	340,327
			1,905,817	864,095	286,763	(96,491)	756,272	953,122	387,122
Title II, Part A:									
84.367	060520-0506	060520-0506	85,214	63,000	36,431	(28,016)	8,415	-	-
84.367	060520-0607	060520-0607	109,948	85,228	(14,616)	14,616	53,000	109,946	56,946
84.367	070520-0607	070520-0607	195,644	-	-	-	74,000	113,208	39,208
			390,806	148,228	21,815	(13,400)	135,415	223,154	96,154
Title II, Part D:									
84.318	054290-0506	054290-0506	15,938	15,938	15,938	(14,845)	1,093	-	-
84.318	064290-0506	064290-0506	6,999	-	890	(890)	6,307	9,629	3,322
84.318	074290-0607	074290-0607	9,554	-	-	-	-	3,456	3,456
			32,491	15,938	16,828	(15,735)	7,400	13,085	6,778

**MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Restated or Approved Award/ Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Cash Received / Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
<b>Title V, Innovative Programs:</b>									
060250-0506	84.298		11,791	11,788	9,216	-	9,216	-	-
060250-0506	84.298		15,984	-	1,491	529	4,283	9,804	7,541
070250-0607	84.298		8,082	-	-	-	-	-	-
			36,857	11,788	10,707	529	13,499	9,804	7,541
<b>Homeless Children and Youths:</b>									
062320-0506	84.196		18,596	12,283	(3,616)	-	10,727	18,596	4,253
<b>Handicapped Preschool &amp; School Pro</b>									
060440-SPSR	84.027		4,400	2,768	2,768	-	2,768	-	-
<b>Emerg Impact Aid - Hurricane Katrina</b>									
064120/1	84.938		9,712	7,090	7,090	2,622	9,712	-	-
<b>Hud Maint. and Operations Grant FY' B02SPM0314</b>									
Hud Community Recreation Ctr Gran B01SPM0283			600,000	-	-	-	-	-	-
			1,247,250	74,625	74,625	-	-	46,845	121,470
			1,847,250	74,625	74,625	-	-	46,845	121,470
<b>Total U.S. Department of Education</b>									
			4,245,929	1,136,815	416,980	(122,475)	935,793	1,264,605	623,317
<b>Passed-through Macomb County ISD:</b>									
<b>Special Education Cluster:</b>									
<b>IDEA Flow Through:</b>									
060450-0506	84.027		678,120	552,977	213,917	-	339,060	125,143	-
070450-0607	84.027		673,757	-	-	-	336,878	673,757	336,879
			1,351,877	552,977	213,917	-	675,938	798,900	336,879
<b>IDEA Transition:</b>									
060490-TS 0506	84.027		1,772	1,625	1,625	-	1,625	-	-
<b>Preschool Incentive:</b>									
060460-0506	84.173		56,903	53,155	24,703	3,748	28,451	-	-
070460-0607	84.173		56,448	-	-	-	28,224	56,448	28,224
			113,351	53,155	24,703	3,748	56,675	56,448	28,224
<b>Taking Action to Manage Emergencies (TAME)</b>									
Q184E050079	84.184E		3,209	-	-	-	-	3,209	3,209
<b>Safe and Drug Free Schools and Communities</b>									
062860-05-06	84.186		5,408	5,408	5,408	-	5,408	-	-
062860-06-07	84.186		4,896	-	-	-	4,896	4,896	-
			10,304	5,408	5,408	-	10,304	4,896	-

**MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Restated or Approved Award/ Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Vocational Education: 063520601216	84.048	063520601216	18,742	18,742	18,742	-	18,742	-	-
Total Passed Through Macomb County ISD			1,499,255	631,907	264,395	3,748	763,284	863,453	368,312
<b>U.S. DEPARTMENT OF LABOR</b>									
Passed through Macomb/St. Clair Workforce Development Board:									
Summer Program 05-06	17.259	N/A	7,552	-	-	-	6,336	-	(6,336)
Summer Program 06-07	17.259	N/A	16,000	-	-	-	-	14,375	14,375
Continuum Program In-School 06-07	17.259	N/A	45,863	-	-	-	-	40,233	40,233
Continuum Program 05-06	17.259	N/A	36,337	36,337	36,337	(1,477)	34,860	-	-
Out of School Youth Component 06-07	17.259	N/A	75,851	-	-	-	-	75,848	75,848
			181,603	36,337	36,337	(1,477)	34,860	130,456	130,456
<b>U.S. DEPARTMENT OF DEFENSE</b>									
R.O.T.C. 2005-2006	12.000	N/A	43,885	43,885	4,556	(310)	4,246	-	-
Total Federal Financial Assistance			\$ 7,476,361	\$ 1,848,944	\$ 754,670	\$ (120,514)	\$ 2,594,348	\$ 3,082,276	\$ 1,122,084

**MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mount Clemens Community Schools (the District) and is presented on the same basis of accounting as the basic financial statements.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**2. TRANSFERS AND ADJUSTMENTS**

The transfers and adjustments column represents the impact of prior year expenditures that were either not reimbursed or reimbursed more than originally expected.

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# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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### **SECTION I – SUMMARY OF AUDITOR'S RESULTS**

#### **Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

#### **Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	Yes
Identification of major programs:	84.027 & 84.173 Special Ed Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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### **SECTION II – FINANCIAL STATEMENT FINDINGS**

#### **Finding 2007-1 – Reconciliation of Fund Equity and Long Term Debt**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	The School District has certain net asset and long term debt accounts that were not reconciled to underlying supporting documentation.
<b>Cause:</b>	This condition was caused by the School District's lack of internal controls over the timely review and reconciliation of these accounts.
<b>Effect:</b>	As a result of this condition, the School District may potentially overstate or understate fund equity and/or long term debt
<b>View of Responsible Officials:</b>	Prior administration booked property tax payables that were not necessary, thus causing the fund equity in the prior year to be understated. Current administration maintains a regular reconciliation process of property taxes to both the MDE website and summer warrants issued by the municipalities. In addition, management will reconcile long term debt to the general ledger on a periodic basis.

#### **Finding 2007-2 – Determination of Accounts payable balance**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
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# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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<b>Condition:</b>	Invoices for services rendered in fiscal year 2007 were recorded as expenditures in fiscal year 2008.
<b>Cause:</b>	The School District was exposed to the risk of misstating its financial statements due to a lack of proper training and management oversight.
<b>Effect:</b>	The pre-audit accounts payable balance as of year end was materially misstated. Without modifications to controls, future accounts payable balances are also subject to potential misstatement.
<b>View of Responsible Officials:</b>	With the change in administration and personnel in the business services area, several routine invoices were not properly booked in 2006-2007. Administration will work with personnel to ensure that all applicable expenditures are recorded properly in the respective school year.

### **Finding 2007-3 – Reconciliation of CD values to the general ledger balance**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	The District's CD values reported on the general ledger did not reconcile to the actual value of those CD's.
<b>Cause:</b>	The School District does not maintain an internal control system whereby the values of its CD's are reconciled to the general ledger on a timely basis.
<b>Effect:</b>	As a result of this condition, the District misstated the pre-audit year end CD values reflected in the general ledger.
<b>View of Responsible Officials:</b>	With the change in administration and personnel in the business services area, no one was responsible for tracking CDs for the district. A new system is in place for the 2007-2008 school year.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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### **Finding 2007- 4 – Preparation of bank reconciliations**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	On one of the District's bank reconciliations, certain checks that were listed as outstanding at year-end had actually been voided and subsequently reissued. Those checks should not have been listed as outstanding.
<b>Cause:</b>	The School District does not maintain an internal control system whereby the outstanding check list is verified for proper inclusion.
<b>Effect:</b>	As a result of this condition, the District misstated the pre-audit year end bank balance by a material amount.
<b>View of Responsible Officials:</b>	Prior administration used a pooling account which caused the personnel in the business services area to not understand the bank reconciliation process. Current administration has established separate bank accounts for each debt fund and the public library which should eliminate this confusion.

### **Finding 2007- 5 – Journal entry approval process**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
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# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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<b>Condition:</b>	The District does not have a formal process for the approval of it's manual journal entries.
<b>Cause:</b>	The School District does not maintain a formal process whereby all journal entries are required to have proper authorization.
<b>Effect:</b>	As a result of this condition, the District's financial statements could be misstated by an erroneous journal entry that is not detected by the District's management in a timely manner.
<b>View of Responsible Officials:</b>	Prior administration did not have clear segregation of duties in this area. Journal entries were posted by the administrator instead of by a staff member in the business services area in many instances. Current administration has established a formal process for journal entry processing which shall remove any potential misstated entries in the future.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2007 - 6 – 100% Special education teacher semi-annual teacher certifications**

<b>Criteria:</b>	OMB Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification.
<b>Condition:</b>	The School District did not acquire the necessary semi-annual certifications of the teachers that were working solely in the special education federal program.

# **MOUNT CLEMENS COMMUNITY SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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**Cause:** This condition was caused by the School District's lack of internal control whereby all teachers working solely on federally funded programs are required to provide semi-annual certifications.

**Effect:** As a result of this condition, the School District is not in compliance with the requirement that all teachers must fill out a semi-annual certifications if they worked solely on a single federal program.

**View of Responsible Officials:** The new Administrative team will ensure that all teachers comply with this federal requirement this year.

### **SECTION IV – PRIOR YEAR FINDINGS**

None

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